



**REMARKS BY
POSTMASTER GENERAL JOHN E. POTTER
PRESIDENT'S COMMISSION ON THE U.S. POSTAL SERVICE
WASHINGTON, D.C.
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Good morning Chairman Pearce, Chairman Johnson, Commissioners. Thank you for this opportunity to come before you to discuss Postal management's recommendations in anticipation of your final report to the President.

On behalf of the postal Board of Governors, postal management, the entire mailing industry and, most importantly, the American public, I want to thank you for the personal sacrifices you have made and for the extraordinary time and effort all of you have given to this important task.

We are all impressed with the quality of the process you established to receive input and share information, including hearings on a wide variety of topics with thought provoking questions, the opportunity for written input with rebuttal, and the sharing of much of the input via your website. The process has been open and fair.

I congratulate you on providing ample opportunities for everyone to participate and have their voices heard. You have my assurance that we are committed to make the changes necessary to ensure that America's delivery needs are met going forward.

Before I start I want to be clear that the views I express are my own and those of the management team. The Governors endorse and support the thrust of these comments, but all governors may not support each element.

In the past two years since we began development of our Transformation Plan much has happened, including the establishment of this Commission by President Bush six months ago. Postal employees throughout the country have stepped up to better serve America. Service performance is at record high levels. Productivity continues to rise. We have long-term contracts in place with our major unions. We are focused on our core mission of providing high levels of service at affordable rates.

We are innovating to meet customer needs and grow the business. For example, we filed a Package Return Service offering yesterday. The filing responds to a rapidly growing segment of our package market.

In addition, we are now considering the Postal Rate Commission's recommendation on our first ever negotiated service agreement. We are also enhancing the value of all our products for our customers by taking advantage of information technology.

From the customer's standpoint, the biggest news this past year was the passage of legislation to reduce the Postal Service's annual payments into the Civil Service Retirement System. President Bush signed that bill into law on April 23. As a result, we will reduce our debt to the Treasury and hold rates stable at least until 2006.

One might look at these results, in light of all that is going on in the economy, and suggest that the Postal Service is doing well. As the saying goes, "If it ain't broke, why fix it?"

My response is that despite these signs of progress and positive change, the fact remains that the Postal Service faces daunting challenges in the years to come.

The Postal Service business model assumes that growing mail volume and associated revenue will cover the cost of providing daily delivery to the growing number of addresses in America.

For the first time in our history, we will have two straight years of significant decline in First-Class Mail volume – the loss of over 3 billion pieces of mail. Why does this cause concern? First-Class Mail is the primary source of Postal Service revenue, providing two-thirds of the funds to finance growing institutional costs.

There are some who review the data and point to the economy as the main driver of declines in First-Class volume. True, the economy has had an impact. But, that simple explanation fails to consider the very real diversion of First-Class Mail to the Internet and to lower cost, lower yield mail products.

This shift calls into question the main building block of our business model.

Despite our best efforts, the sobering reality is that we need to act now to assure that there is sufficient flexibility in the business model to address major changes on the horizon. Today is the right time to make change – when we can do it with clear heads and when we are not motivated by crisis.

We have an opportunity and an obligation to take action now to create a new business model that will strengthen America's mail system in the future.

The Board of Governors of the Postal Service and the Postmaster General are responsible for providing universal service at affordable rates.

That mandate was given to us 32 years ago. Yet today, faced with a growing infrastructure and increased diversion of mail to alternative communications, that challenge is becoming increasingly difficult to meet.

After six months at work on this Commission, you now know a great deal about mail and the challenges that lie ahead. You know that the Postal Service is an independent establishment of the Executive Branch chartered to operate in a businesslike manner.

Let's just suppose for a minute that six months ago, you were asked to lead this great institution. What authority would you need to manage in the face of the frailty of the current business model?

I am sure your business plan would include a pricing and product strategy, a collective bargaining strategy, changes to the logistics and facility infrastructure, and some notion of making a profit each year.

I believe that you would be surprised to find out that pricing changes take 16 months to effect; that you are not free to change quickly product offerings to keep pace with your customers' needs; that employee benefits are in many cases non-negotiable; that you can't close post offices for economic reasons or consolidate your plant infrastructure without extensive scrutiny; and, that "break even" means there is no cushion of retained earnings to carry you through the tough times.

These are limiting factors which I believe you would modernize if today you were leading the Postal Service into the future. The status quo won't do. To serve America, to maintain

universal service, the Postal Service has to change. It has to modernize with a vision of what America needs not just today but 10 to 15 years from now.

The real dilemma faced by the mailing industry and the Congress is what should be done when all that the law currently allows is simply not enough to sustain universal service at affordable rates for the long term?

We are looking to you to provide direction on this very issue. Why? Because mail is a basic and fundamental government service -- one which has evolved historically and needs to continue to evolve as the nation moves forward. And because mail is a vital part of the American economy with some 9 million people employed in a mail or mail-related function.

These are broad public policy issues which transcend Postal management and individual stakeholders.

The Postal Service's Transformation Plan contains our recommendations. First and foremost, we are doing all we can within the current law to assure the future of America's mail. Our track record speaks for itself. We expect that you will endorse what has been done.

We will not be surprised if you were to suggest that we accelerate some of our planned actions. However, many of the changes, such as facility consolidations and changes in the rates process, will receive significant resistance. These changes are necessary to continue to deliver highly reliable service at affordable rates in the future.

A key for transformation to be successful is the ability to evolve over time. We need the flexibility to allow the business conditions of the day to trigger changes in our operating systems and the products and services offered. Creating chaos will not work. The changeover from the Post Office Department to the U.S. Postal Service in the early 1970s created a period of chaos.

During the last major reorganization, in 1992-1993, the law of unintended consequences kicked in and led to major service performance issues nationwide.

We have learned from those lessons. So we have sought in our Transformation Plan to establish a determined, yet orderly transition as we move into the future.

For example, if there were a change in employee benefits, we would advocate a smooth transition which protects current employees and focuses on changing benefits for new hires.

Let me be more specific about the Postal Service's Transformation priorities in the near term when it comes to changes in the law.

Pricing flexibility is at the top of the list. I believe that with a monopoly comes review. However, the review process should not stifle the ability to meet customer preferences and finance the national mail system for the future.

Although the ratemaking process should ensure that all appropriate costs are covered, we should have the latitude to charge value-based price, that is, prices based on the value of the service within the marketplace, instead of the traditional cost-plus institutional markup.

Our commercial customers have long told us that small annual price changes are preferred to price shock every couple of years. Annual increases could be more easily absorbed into their business plans. Conversely though, the public prefers a uniform rate for single-piece First-Class Mail that would change less frequently, every few years, at convenient, predictable increments.

The current system does not provide any clear path to meet these varying preferences. We recommend a model that gives the Board of Governors the authority to set prices.

An after-the-fact review process would address issues such as cost coverage, consumer interests, cross-subsidization, impact on competition, and one class of mail priced at a uniform, affordable rate.

In line with our commitment to control costs and mitigate the need for rate increases, we recommend that the Postal Service's break-even mandate be put aside. Instead, the Postal Service should be allowed to retain earnings from year to year. In a businesslike manner, retained earnings could be used to bridge economic slowdowns and to invest in new technologies and infrastructure.

Another area for your consideration is labor. As we previously testified, the Postal Service believes the collective bargaining process can be brought to a new level of fairness and equity for all participants.

First, we recommend creating a negotiation process that includes not only wages and work rules, but also puts all benefits – health, leave and retirement, just to name a few – on the table.

Right now, for example, employees who work for the Postal Service for as little as 5 years and who retire having been in the Federal Employee Health Benefit program for that time, get 70% of their health benefit premiums paid for life – the same as a 30-year career employee. That doesn't make sense to me. Longevity of service should have a role in determining the scope of earned health benefits.

Second, we recommend that the collective bargaining process be streamlined. We consider mail to be an essential public service. We do not support a postal employee right to strike.

Therefore, some mechanism to resolve impasses must be put in place. Mediation-arbitration is the model we recommend. It will streamline the process and reduce the risk to either side. This concept of mediation-arbitration would enable both sides to continue the progress made during negotiations.

Turning now to my final category of recommended short-term changes, I want to address the need for authority to manage our infrastructure in a way that makes good business sense, and without undue constraint from outside influences.

Briefly stated, the Postal Service must be allowed room to implement infrastructure changes including – but not limited to – changes in the number and location of post offices and processing plants, and changes in our transportation networks.

From a practical perspective, I believe we should have the flexibility to adjust our existing retail outlets to better serve communities and build our revenue base. That simply makes good business sense.

Historically, the Post Office Department changed the number of retail outlets to meet the changing needs of America. At one time there were over 76,000 Post Offices. Today, we have a network of 38,000 retail outlets, largely unchanged since 1970.

Times have changed. It is no longer necessary to go to a post office to access our services. Our rural letter carriers, who serve some 60,000 routes across the country, are post offices on wheels. You can buy stamps by mail or purchase them online. Many of our services are available through alliances and partnerships with the private sector.

In fact, we have over 40,000 private sector retail outlets offering stamps and other services. We should not be expected to retain all our post offices simply because they have always been there.

The Postal Service has more than 300 processing plants and transfer facilities nationwide. This number has remained largely unchanged over the last decade.

Yet during that time, distribution and sorting technology has improved dramatically.

Over that same period of time, we have seen the work content of mail reduced through letter-mail preparation and, in many cases, transport to destination of product by the mailers.

The opportunity to consolidate operations and reduce the number of nodes on our network represents a significant cost reduction opportunity. A reduced plant network will drive transportation requirements and costs down. These opportunities must be pursued to increase the value of mail to our customers.

Having made these recommendations, what happens if they are still not enough to assure a self-sufficient national mail system?

There are a limited number of options available:

- Change the service provided. For example,
 - A) Relax the current service standards from one, two and three days, to two-, three- and four-day delivery; or
 - B) Relax six-day delivery to some lower, fixed number of days.
- Diversify and look to other means to finance the universal service obligation – such as using post offices to bring financial services to communities.
- Consider whether preferred rates, such as non-profits, should make a greater contribution to cover institutional costs, a contribution comparable to other rate categories.
- Have the taxpayers assume the cost of the universal service obligation; or
- Relax the monopoly and require delivery service providers to finance a universal service fund.

Personally, I believe there will come a time when demand will allow for relaxation of the six-day requirement.

A triggering mechanism should be considered in anticipation of such a change. I also believe that for the Postal Service to be deemed successful, it should not receive taxpayer subsidies for universal service.

Also, I do not support relaxation of the monopoly, nor do I support relaxing restrictions on access to mailboxes. Given the nation's increasing emphasis on security, and studies that show Americans do not want their mailboxes used by a variety of companies or organizations, I simply do not see this as in the nation's best interest.

Today, we are at a crossroads in the history of one of the nation's fundamental institutions. America's mailboxes have served this nation well for more than 200 years.

In a time of constant change, mailboxes and our letter carriers who visit them every day are emblematic of the fundamentals that make this nation strong: trust; a universal ability to communicate; and reliability.

From my conversations with many of you, I know you, too, are committed to building a stronger foundation for the Postal Service of the 21st century – a foundation that will continue to serve the American people well into the future.

Finally, I want to reiterate my gratitude to all of you who have served on this Commission.

As Treasury Under Secretary Peter Fisher stated at the ceremony to announce the appointment of the Commission on the Postal Service six months ago, your task is to “consider the potential need for further steps that should be taken to secure the future of our entire system of mail delivery.”

Thirty-six years ago, Postmaster General Larry O'Brien wrote that the Post Office Department was "in a race with catastrophe" unless dramatic change was made. He was right. Today, the United States Postal Service is in a race for its future. It's a race to bring about change, not for the sake of change, but to enable Americans to always have a fundamental, universal, hard-copy means of communicating.

As a Commission, the task you have is certainly daunting and challenging. Yet, it is also a rare opportunity to make an invaluable contribution to our nation that few people in our history have been called to make. The recommendations you make will help chart the future course of mail service in this country for generations to come.

As you consider your recommendations, I urge you not to determine what decisions are in the best interest of any one or several stakeholders – including the Postal Service. But rather, consider those recommendations and changes that are in the best interest of the nation and the American people.

Clearly, some of those recommendations can be acted on immediately. You have my assurance that where that is feasible and actionable, we will take immediate steps to implement the changes required.

Some issues, such as those that are within the domain of public policy, will be more complex, and will require further debate and a deliberate strategy for transition.

I urge you to build in mechanisms that will allow change to occur at a reasonable pace. Set the expectations for the changes that need to occur and provide a framework for gauging the results of those changes.

Thank you for this opportunity to share our comments and suggestions. I look forward to your report and I look forward to receiving your recommendations for building a fiscally sound, viable and efficient Postal Service that will serve the American people in years to come.

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